ESG Economic Validation

Analyzing the Economic Benefits of the Cisco Enterprise Agreement

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Executive Summary

Licensing is often thought of only as a necessary prerequisite to allow access to technology and services. Procuring and managing traditional licenses is a complex activity that invites mistakes, which can be costly and make budgeting a pure guessing game. The rapid introduction of delivery methods and explosion of devices increases the challenge of licensing and causes a large percentage of companies to pay yearly penalties or true-up fees. Many companies offer enterprise license agreements (ELAs) but customers have found them to be tedious, and at times, punitive.

Cisco has created a transformative Enterprise Agreement (EA) that simplifies tracking of licenses for compliance and does not penalize customers for growth. Rather, Cisco True Forward rewards companies for growth by adjusting contracts going forward instead of charging fees and penalties for the previous year's increase. This partnership approach allows companies to quickly activate licenses and deploy what is needed, when it is needed.

ESG interviewed customers with experience at various points of their Cisco EA along with an understanding of consumption models and traditional ELAs. The focus of these interviews was an evaluation of their licensing strategy and the positive and negative aspects that licensing can have on the achievement of business goals. Three of the customers are highlighted in this paper: a US-based health insurance company, a university system out of Alberta Canada, and a property services company providing both residential and commercial expertise.

All customers interviewed expressed a high level of satisfaction with Cisco EAs, specifically noting the shift of resources to more strategic activities when moving from an à la carte licensing consumption model to a Cisco EA. Three areas that specifically were reported are lower costs, lower complexity, and increased business agility. With Cisco's EA approach, customers see licensing as something that enables business opportunities.

Introduction

This ESG Economic Validation focuses on the quantitative and qualitative benefits organizations can expect from implementing a Cisco Enterprise Agreement. Insight for this paper was gathered from customer and partner interviews combined with our extensive internal knowledge of licensing and enterprise agreements. The key metrics evaluated include overall complexity of licensing, flexibility, value, and business enablement.
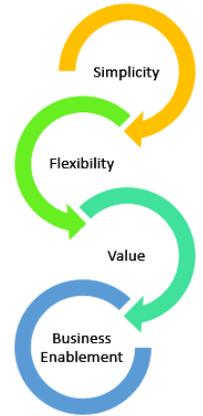
Challenges

In the past, licensing was a simple negotiation for a simple product. Cost was often the driving factor in the decision-making process and the list of licensed products was consistent year to year. Today's workforce is shifting towards a mobile environment with an ever-expanding list of devices and scenarios to support. The complexity of predicting and negotiating licenses to support the needs of an organization has become a frustrating game of catch-up and often limits the ability of a company to pivot and capitalize on new opportunities. According to ESG research, 68% of respondents noted that their organization's IT environment has become more complex over the previous two years.[1] The challenge of properly licensing these more complex environments is growing and preventing companies from realizing their maximum potential.

Figure 1. Change in Level of IT Complexity

In general, how complex is your organization's IT environment relative to two years ago? (Percent of respondents, N=651)
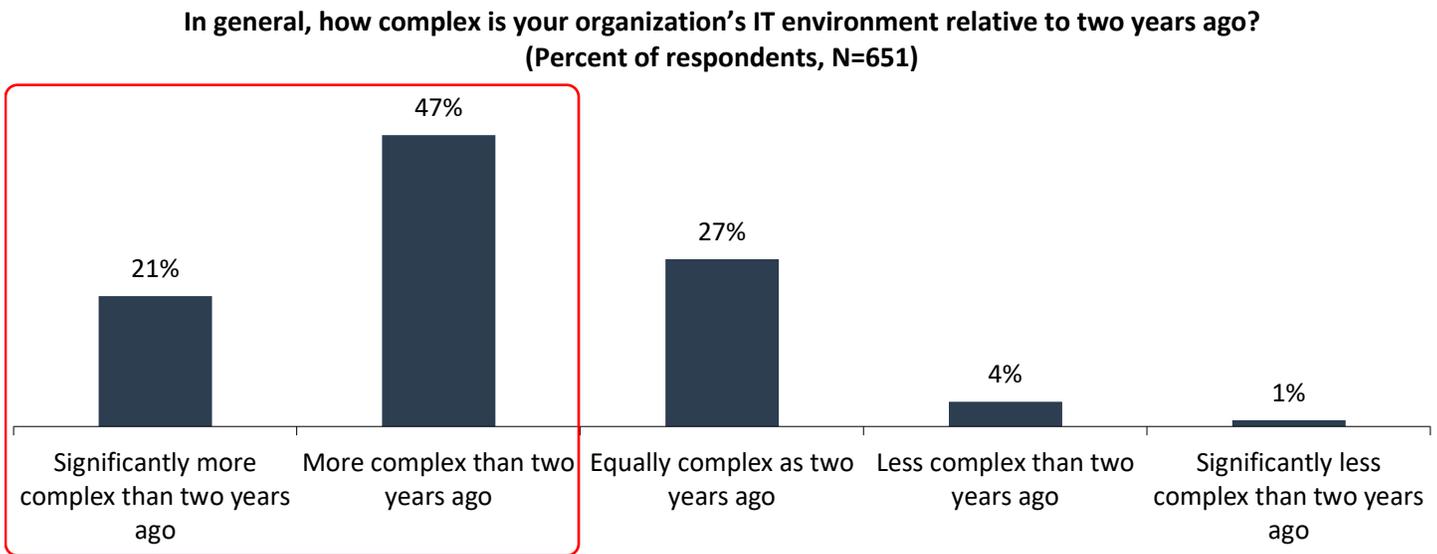
Source: Enterprise Strategy Group

ESG interviewed licensing and procurement managers who are tasked with negotiating and monitoring license compliance. Additionally, ESG interviewed IT managers to determine the impact and limitations that licensing has on their ability to consistently achieve their service level agreements (SLAs).
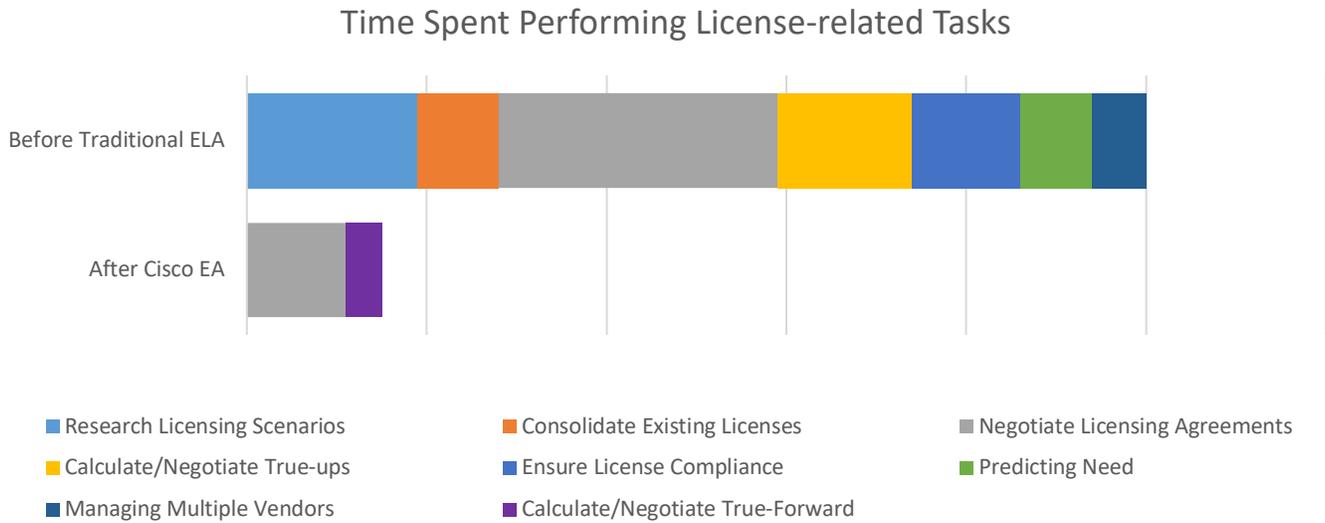
The Solution: Cisco Enterprise Agreements

Cisco has simplified its licensing approach by offering enterprise agreements (EAs) that recognize a key factor that other vendors often miss; while cost and compliance are important, their customers mainly focus on solving business challenges, not worrying about licenses. Cisco's approach of making software easier to buy, consume, and manage allows customers to pick the right tool for the job without the delays that come with traditional licensing approaches. The result, as shown in

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[1] Source: ESG Research Report, *2018 IT Spending Intentions Survey*, February 2018.

Figure 2, allows customers to focus their time and energy on strategic revenue producing activities instead of mundane licensing tasks.

Figure 2. Cisco EAs Reduce Complexity and Minimize Time Spent Performing License-related Tasks

Time Spent Performing License-related Tasks

Legend:
- ■ Research Licensing Scenarios
- ■ Consolidate Existing Licenses
- ■ Negotiate Licensing Agreements
- ■ Calculate/Negotiate True-ups
- ■ Ensure License Compliance
- ■ Predicting Need
- ■ Managing Multiple Vendors
- ■ Calculate/Negotiate True-Forward

Source: Enterprise Strategy Group

ESG Economic Validation

ESG completed an economic analysis of the impact of adopting Cisco Enterprise Agreements with a focus on both the activities in the licensing cycle and the impact that EAs have on customers' ability to meet business objectives.

ESG's Economic Validation process is a proven method for understanding, validating, quantifying, and modeling the economic value propositions of a product or solution. The process leverages ESG's core competencies in market and industry analysis, forward-looking research, and technical/economic validation. ESG conducted in-depth interviews with end-users to better understand and quantify how moving to a Cisco EA has impacted their organizations, particularly in comparison with previous licensing methods. In addition to experience with Cisco EAs, some of the customers interviewed had experience with ELAs from other vendors and were able to explain differences between the licensing solutions.

Cisco Enterprise Agreement Economic Value Overview

ESG's economic analysis revealed that customers who moved to a Cisco EA were able to realize substantial benefits in reduced overall cost, reduced complexity, and increased business agility when compared to traditional à la carte licensing.

- **Lower cost** – Customers report benefits in overall licensing costs and cost predictability when moving to a Cisco EA.

- **Reduced complexity** –With workforces becoming mobile, business becoming global, and the types of devices that must be serviced consistently changing, Cisco EA simplifies license management with its single portal where customers can view, manage, and renew licenses.

- **Increased business agility** – Cisco EAs allow businesses to rapidly deploy capabilities to address business needs without the delays and uncertainty that come with à la carte licensing.

Lower Cost

ESG's economic analysis found that customers reported overall cost benefits that went far beyond a comparison of the per license cost to previous charges. While the lower cost per license was noted by each customer interviewed, many stated that cost predictability was a driving factor in signing an EA.

- **Lower Cost Per License** – Cisco EAs have a low threshold point where cost per license is reduced when switching from à la carte licensing to EA. Additionally, customers reported that access to the entire suite of software in Cisco's EA allowed for the elimination of additional license fees paid to other vendors.

- **True Forward** – True Forward is Cisco's approach to handling growth over the life of an EA. True Forward allows for growth each year without retroactive billing for over usage of licenses from the previous year. Customers report that one of the most frustrating parts of licensing, true-ups, has been eliminated by True Forward. In traditional licensing environments, documents with 15,000+ line items must be reconciled, which takes multiple hundreds of man-hours and invites the strong possibility of errors. Additionally, it is highly likely that customers are out of license compliance due to the complexity of the task. In the end, over 50% of companies report owing money for true-ups each year[2] with many paying more than $1M.[3] True Forward has eliminated this penalty for growth and helps companies concentrate on the future.

- **Cost Predictability** – Each customer interviewed reported that the predictability in licensing fees was a large factor when deciding to move to a Cisco EA. With à la carte billing, it is next to impossible to accurately predict and hit licensing budgets and, with traditional ELAs, the variability in true-up costs often forces companies to pull money out of this year's budget to pay for last year's growth.

- **Consolidation of Licensing Procurement and Monitoring** – The simplicity of managing a Cisco EA allows companies to reduce manpower dedicated to licensing by an average of 70% while maintaining a high level of assuredness that licensing is kept in compliance.

True Forward is Cisco's unique approach to licensing that enables growth without retroactive fees. Each year customers are allowed growth without true-up licensing costs. This is Cisco's way to invest in its customers' success and give its customers predictability in licensing costs.

"Licensing used to be a full-time job of fairly mundane tasks. With Cisco EA our licensing tasks went from consuming 40 hours per week to 5 hours. This allowed us to shift these resources to a much more strategic role. Additionally, we have seen an increase in job satisfaction in the people who used to be tasked with license procurement and tracking."
– US-based Health Insurance Company

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[2] Source: *TCGI, Non-compliance, Audits and True-up costs* - April 2015.
[3] Source: Flexera, *The State of the (Software) Estate: Waste & Risk Running Rampant in Enterprises. A 2016 Key Trends in Software Pricing & Licensing Survey Report*. 2016.

Reduced Complexity

Complexity is often the enemy of efficiency in IT environments. ESG estimates that most companies can achieve overall IT savings of up to 25% by focusing on driving complexity out of day-to-day operations. Cisco EAs bring products and benefits that help eliminate complexity and focus efforts on innovation and efficiency.

- **Deployment Efficiency** – ESG has found that a Cisco EA and True Forward are enablers for company growth due to the elimination of the steps of requesting and waiting for individual license approval. Companies interviewed reported that, for a large percentage of deployment projects, they were able to eliminate hundreds of man-hours of effort because people had instant access to the proper license to complete the job. Additionally, they were able to drastically reduce rework because they were able to access the correct product at the correct time.

- **Vendor Consolidation** – Studies consistently reinforce the notion that consolidation of vendors can reduce complexity, costs, and delays. The Cisco EA gives customers access to infrastructure, collaboration, and security software suites, many of which can be used in place of offerings from different vendors. In addition to eliminating the licensing costs of those additional products, customers report time savings, reduced training requirements, and lower support costs by utilizing a Cisco EA.

- **License Portability** – Cisco's license portability allows for software licenses to be moved to a new device without needing to repurchase licenses during hardware refresh cycles. This eliminates cost, delays, and frustration often found with à la carte models.

> *"Our techs in the field no longer have to juggle licenses. They go all over the country to do installs. In the past they would often have to delay jobs or take multiple trips. With our EA they can deploy exactly what they need the first time." – Multi-national Property Services Company*

Increased Business Agility

While cost savings will always be a key factor when making decisions, changes in an organization that enable employees to create value often drive the overall success of a business. Moving to a Cisco EA allows companies to focus energy on activities that enhance offerings and produce revenue.

- **Strategic Efforts** – License procurement and management is something that often drives a wedge between the people implementing technology and those charged with approving and purchasing the licenses. Time and energy lost in this process is costly and rarely results in the genesis of new ideas to reach business goals. Customers ESG interviewed report that freeing a large block of time previously used for license procurement allows for much more effective use of those resources and a better level of cohesion between implementation and licensing staff.

- **Deployment of New Capabilities** – Moving to an EA is not just a cost-cutting measure, it often leads to the deployment of new products that help solve business challenges. Companies that access other software supported until the Cisco EA deploy new capabilities faster and more frequently than those in à la carte environments. According to Cisco, 39% of EA customers have adopted new technologies, with another 50% reporting that they plan to deploy new items.[4]

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[4] Source: Hill, Mark, Cisco Blog: *Cisco Enterprise Agreement: Key to Cisco's Evolving Software Business Strategy*, May 2017.

- **Reduction of Shelfware** – Approximately 37% of purchased software is shelfware, software that has been purchased but is not currently bringing benefit to the organization[5]. Much of the shelfware was created by a fragmented purchase process that is far too often reactive and ties up budget in products that don't create benefit. ESG has found that companies switching to enterprise agreements dramatically reduce money wasted on shelfware.

"Our Cisco EA is a building block of shifting our views on technology. We are now better aligned with our groups that interface and use our networks because the hurdle of approving and procuring individual licenses has been eliminated." – Multinational Property Services Company

The Bigger Truth

Licensing is rarely called out as a strategic factor that businesses rely on to compete. However, companies that recognize ways to transition licensing from being a repetitive task to an opportunity for improved processes more often meet their business objectives. In the past, licensing has focused on two main points—lowest possible cost and reduction of the risk of non-compliance. The process of obtaining and managing appropriate licensing was a tedious task inviting errors and making additional payments and penalties an expected part of doing business.

Traditional enterprise license agreements can reduce the risk of non-compliance but often inject a level of complexity that causes pressure to overbuy or reluctance to adopt an ELA. When signing traditional ELAs, the challenge of accurately predicting the needed licenses often results in large true-up fees and can result in delays in innovation when unforeseen opportunities require access to products outside the scope and phase of the current agreement.

The concepts behind Moore's Law make forecasting business needs a daunting task. Additionally, the rapid changes in platforms and delivery methods make accurately predicting needs close to impossible. Cisco has designed its EAs with this in mind and has revolutionized enterprise licensing for customers. Cisco's True Forward method invests in the yearly growth of your company instead of requiring you to pay additional fees and penalties for past year usage. Cisco Enterprise Agreements are created in a way to minimize tedious tasks associated with à la carte and traditional enterprise licensing agreements and allow customers to focus on using technology to create business value.

Using both the qualitative and quantitative information confirmed through our discussions with organizations who have experienced the shift from traditional enterprise licensing agreements to Cisco EA, ESG calculated the expected licensing-related costs over a six-year time period for a modeled enterprise organization. The model leveraged blended assumptions based on real-world time and dollar savings validated through the customer interviews, and considered all of the license-related costs that the organization may incur both before and after implementing Cisco EA. As shown in Figure 3, ESG predicts that over six years, the 38,000-client organization could save over $2.4M, largely made possible through the elimination of licensing-related tasks.

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[5] Source: 1E, *The Real Cost of Unused Software*, November 2015.

Figure 3. Six-year Expected License-related Costs – Cisco EA versus Traditional à la carte Licensing

	Expected 6 Year Savings
Research Licensing Scenarios	$456,000
Consolidate Existing Licenses	$216,000
Negotiate Licensing Agreements	$480,000
Calculate/Negotiate True-ups	$264,000
Ensure License Compliance	$288,000
Predicting Need	$192,000
Managing Multiple Vendors	$144,000
	$2.4M

Cost of Enterprise Licensing - Cisco EA vs. Traditional ALC
(Expected six-year savings, Enterprise Company, 38,000 Clients

$2.4M Savings

■ Research Licensing Scenarios   ■ Consolidate Existing Licenses   ■ Negotiate Licensing Agreements
■ Calculate/Negotiate True-ups   ■ Ensure License Compliance   ■ Predicting Need
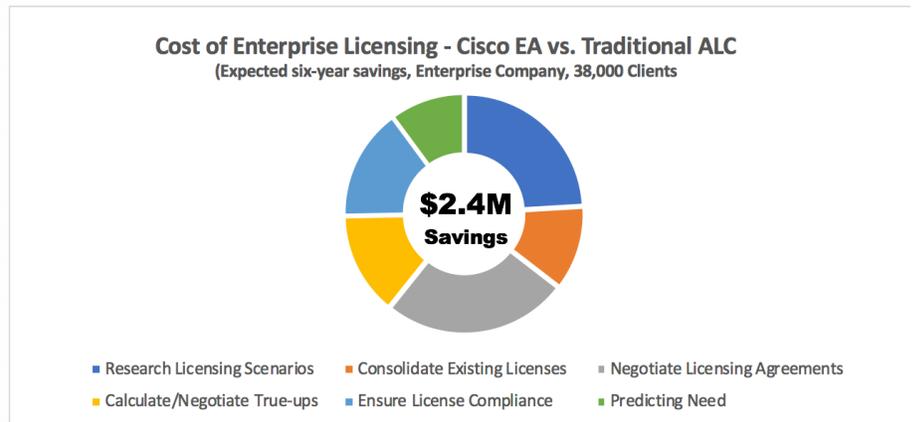
When choosing a long-term enterprise technology partner, there is a lot for an enterprise to consider. More often than not, licensing agreements simply get rolled into the cost of the solution. However, simply comparing dollar savings when considering different vendors' enterprise licensing agreements is not enough. One must equally consider the people and processes required to plan, manage, and implement licenses, as well as the business agility that can be derived by choosing the right agreement. ESG has found that customers who adopt Cisco EAs realize benefits in lowered cost, reduced complexity, and improved business agility. ESG strongly recommends that customers consider an Enterprise Agreement when purchasing Cisco software.